

# Applying for and Maintaining Participation in the SFA Programs

*In this chapter, we will discuss how and when a school applies for approval to participate in any Student Financial Assistance (SFA) Program. We also discuss changes that can affect a school's participation and how and when to report these changes.*

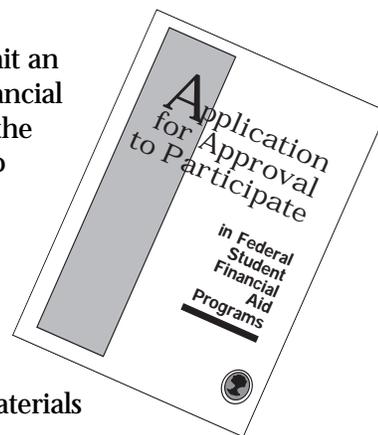
## APPLYING TO PARTICIPATE

To participate in any of the SFA Programs—the Pell Grant Program, the Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, and the campus-based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)—a school must be certified by the Department.

To apply for institutional participation, a school must submit an Application for Approval to Participate in Federal Student Financial Aid Programs (Application) to the Department. In evaluating the school and deciding whether to approve or deny the request to participate in any SFA Program, the Department examines the Application and accompanying submissions. In addition, for schools that are participating or have participated in the SFA Programs, the Department will examine a school's audits and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as school catalogs or copies of contracts with third-party servicers) and ask additional questions. Note that, effective October 1, 1998, the Higher Education Amendments of 1998, Public Law 105-244 (Amendments of 1998) allow a school to provide a copy of its contract with a third-party servicer upon request, rather than requiring that it be submitted as part of the certification process.

The Department uses this information to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Chapters 1-4. The Amendments of 1998 clarify that the Application is to contain information that allows the Department to evaluate a school's financial responsibility and administrative capability. In addition, the Amendments require that the Application provide, at the option of a school, for participation in one or more of the FFEL and Direct Loan programs. (Both of these provisions are effective October 1, 1998.)

Application Form  
Sec. 498(b)



Amendments  
of 1998

Amendments  
of 1998

### *When to Complete an Application*

A school submits a materially complete application to the Department when it

- wishes to be approved for the first time (initial certification) to participate in the SFA Programs;
- undergoes a change in ownership, a conversion for a for-profit institution to a nonprofit institution or vice versa, or a merger of two or more institutions (referred to collectively as a “change in ownership, structure or governance” for the remainder of the chapter) and wishes to participate in the SFA Programs;
- wishes to be reapproved (recertification) to participate in the SFA Programs (the application must be completed 90 days before the expiration of the current Program Participation Agreement (PPA));
- wishes to be designated as an “eligible institution” so that its students may receive deferments under the SFA Programs, its students may be eligible for the HOPE Scholarship tax credit, or so that the school may apply to participate in federal HEA programs other than the SFA Programs; or
- wishes to be reinstated to participate in the SFA Programs.

Each of these five circumstances is discussed in more detail later in this chapter.

### *Electronic application*

Applications for recertification, reinstatement, or reporting changes to previous applications must be submitted to the Department electronically through the Internet (for more information on required electronic processes, see Chapter 3 “Administrative Capability” ). A signature page is required and must be mailed separately along with all required supporting documentation. The Department has made the Application available on the Department’s web site on the World Wide Web. The address is

<http://www.eligcert.ed.gov>

At the time this publication goes to print, schools may not submit applications for initial certification or applications for a first-time eligible institution designation over the Internet. The Department provides the Application to a school seeking initial certification or a first-time eligible institution designations in a paper version. A school seeking initial certification or a first-time eligible

institution designation can request an Application from the Department's Institutional Participation and Oversight Service (IPOS):

U.S. Department of Education  
Institutional Participation and Oversight Service  
P.O. Box 44805  
L'Enfant Plaza Station  
Washington, DC 20026-4805  
Telephone: 202-260-3270

In addition, the Application is available in Portable Document Format (PDF). A school seeking initial certification or a first-time eligible institution designation may download this version from the World Wide Web. The address is

<http://www.eligcert.ed.gov/>

The school must then complete and return the Application to the Institutional Participation and Oversight Service, along with photocopies of requested documents. An Application sent by mail should be sent to the Department address listed above. An Application sent by overnight mail/courier delivery service should be sent to

U.S. Department of Education  
Institutional Participation and Oversight Service  
7th and D Streets, SW  
GSA Building, Room 3514  
Washington, DC 20407

For each version of the Application, the Department recommends that the school keep a copy of its application (and supporting documents) and retain proof of the date when it submitted the Application. The completed version of the Application—paper or electronic—is sent to the Department. With each version, the school must submit the paper page containing the original authorizing signature of the school's President/Chief Executive Officer (CEO)/Chancellor.

**This Application is divided into 13 sections, plus a glossary at the end.**

<i>This Section ...</i>	<i>Is for ...</i>
A through D	General questions about the school.
E and F	Questions about educational programs and locations that the school wishes to be eligible for SFA Programs.
G	Questions about telecommunications and/or correspondence (tele/corr) courses, students enrolled under ability-to-benefit provisions, and incarcerated students.
H	Schools that are initial applicants, schools with a change in ownership or structure, and schools seeking reinstatement.
I	Foreign institutions, including foreign graduate medical schools.
J	Questions about third-party servicers that perform any function relating to the school's SFA Programs.
K	Questions about the school's administrative capability and financial responsibility.
L	The school's President/CEO/Chancellor to sign.
M	A checklist of copies of documents that must be included, as applicable. <sup>1</sup>
Glossary	Specific definitions of terms used in the application.

<sup>1</sup>These include the school's current letter of accreditation; valid state authorization; and, in some cases, audited financial statements, a default management plan and, for a school undergoing a change in ownership, an audited balance sheet showing the financial condition of the school at the time of the change in ownership.

**If a school has questions, it is encouraged to contact the Institutional Participation and Oversight Service.**

### Submission Time Frames

An application with missing information or materials that are still to come is considered incomplete. The time frames for submitting a materially complete application depend on a school's current status:

- A school seeking initial certification to participate in the SFA Programs may submit an Application to the Department at any time.<sup>1</sup>
- A school that undergoes a change in ownership, structure, or governance and wishes to participate in the SFA Programs must notify the Department in writing no later than 10 calendar days after the change becomes effective. If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day. After the school receives its state and accrediting agency approvals, it must submit the Application electronically and send photocopies of the approvals to the Department. See page 219 in this chapter for more information on changes in ownership, structure, or governance.
- A school seeking to be recertified to continue to participate in the SFA Programs should submit an Application before the expiration date listed in its Program Participation Agreement (PPA). If the school submits its materially complete application to the Department no later than 90 calendar days before its PPA expires, its eligibility to participate in the SFA Programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its Application by April 1, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its application no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires. If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire and the SFA Program funding will cease.
- A school that wishes to apply to become an eligible institution so that its students may receive deferments under federal student loan programs, be eligible for the HOPE Scholarship tax credit, or so that it may participate in federal HEA programs other than the SFA Programs, may submit an Application to the Department at any time.

### Materially Complete

*An institution submits a materially complete application if it submits a fully completed application form supported by*

- *a copy of the institution's state license or other equivalent document authorizing the institution to provide a program of postsecondary education in the state in which it is physically located,*
- *a copy of a document from its accrediting agency that grants it accreditation status, including approval of the non-degree programs it offers, and*
- *any other required supporting documentation.*

1. In the case of a proprietary institution and a postsecondary vocational institution, there is an eligibility requirement that the school must have been providing the same or similar postsecondary instruction continuously for at least two consecutive years before it can participate in the SFA Programs. This is known as the Two-Year Rule. (See Chapter 1.)

Expiration of Certification

Sec. 498(g)

- A school that voluntarily left the SFA Programs may seek to be reinstated at any time. A school that was terminated from the SFA Programs or that left because it was about to be terminated or otherwise sanctioned generally must wait 18 months before applying for reinstatement.

Amendments  
of 1998

The 1992 reauthorization of the HEA required that every four years a school must be reapproved (recertified) to participate in the SFA Programs. The Amendments of 1998 extend the certification period to up to 6 years. In addition, the Amendments of 1998 require the Department to notify schools six months in advance of the expiration of their certification.

CLARIFICATION

The date of submission for an electronic application is the date a school uses the "Submit Application" page to electronically submit the application or the date the signature page and supporting documents were postmarked or sent by a delivery service, whichever is later. For an application that is mailed or delivered, the Department considers the date of submission to be the postmark date or a delivery service's or courier's written verification or printout of the shipping date.

***Status Following Submission***

Following submission of an Application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. Depending on the outcome of its review, the Department either will send a school copies of the PPA to sign (and further instructions) or notify it that its application is not approved.

During the Department's application review period, a school's status is as follows:

- If a school has never been certified (and it is seeking initial certification), it will not be considered certified during the Department's review period.
- The Amendments of 1998 allow the Department to grant provisional certification to a school seeking approval of a change in ownership based on the Department's preliminary review of a materially complete application that is received by the Department within 10 business days of the transaction for which approval is sought. If the Department grants provisional certification under these conditions, the provisional certification expires no later than the end of the month following the month in which the transaction occurred. If the Department has not issued a decision on the application within that period, the Department may extend the school's provisional certification status on a month-to-month basis until a decision is issued. This provision is effective October 1, 1998.

Amendments  
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- If a school has a change in ownership, structure or governance, and does not submit an Application within 10 business days of the transaction for which approval is sought, its participation in the SFA Programs stops. The institution may not award SFA Program funds beginning on the date that the change becomes effective until it receives a new PPA signed on behalf of the Secretary of Education. (Exceptions for unpaid commitments of SFA Program funds are discussed on page 222).
- If a school is certified (and it is seeking recertification), it will remain certified during the Department's review period if it submitted its application during the correct time frame described earlier in this Chapter.
- If a school has never been an eligible institution under the HEA, it will not be considered eligible during the Department's review period.
- If a school once participated in the SFA Programs but no longer does so, it will not be considered certified during the Department's review period.

### ***PPA and ECAR***

If the Department approves a school's application, the Department sends the school two copies of a PPA (see Chapter 2). The PPA includes the date on which the school's eligibility to participate expires. The school must sign and return both copies of the PPA to the Department. The Department then sends the school an Eligibility and Certification Approval Report (ECAR) and the school's copy of the PPA, signed and dated on behalf of the Secretary. The ECAR contains the most critical of the data elements that form the basis of the school's approval and also a list of the highest level of offering, any nondegree program or short-term programs, and any additional locations that have been approved for the SFA Programs. Both of these forms must be kept available to be reviewed by auditors and Department officials, including the SFA Program reviewers.

### ***Effective Date for Participation***

The date the PPA is signed on behalf of the Secretary is the date the school may begin SFA Program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program. For more information, see the *SFA Handbook: Direct Loan and FFEL Programs Reference*.) Pell Grant and campus-based program disbursements to students may begin in the payment period that the PPA is signed on behalf of the Secretary. FFEL and Direct Loan program disbursements may begin in the loan period that the PPA is signed on behalf of the Secretary. The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the SFA Programs.

**Site Visits**

*Sec. 498(f)*

Amendments  
of 1998

***Site Visits***

Prior to the Amendments of 1998, the law required the Department to conduct a site visit at each school before the school was certified or recertified for participation in the SFA Programs. The Department was permitted to establish priorities about how schools are selected to receive site visits. In addition, the Department was permitted to coordinate the site visits with site visits by states, guaranty agencies, and accrediting agencies to eliminate duplication and reduce administrative burden. Finally, the Department was permitted to charge to cover the expense of site visits and certification.

**Provisional Certification**

*Sec. 498(h)*

The Amendments of 1998 make site visits as part of the certification and recertification process permissive rather than mandatory. The Department is now required, rather than permitted, to establish priorities about how institutions are selected to receive site visits and to coordinate conducting site visits to the extent practicable with other agencies. The Amendments also repeal the ability of the Department to charge fees for site visits and certification costs. This provision is effective October 1, 1998.

***Provisional Certification***

In certain cases, rather than granting full approval to participate, the Department may grant a school conditional approval to participate in the SFA Programs (for up to three complete award years). Referred to as “provisional certification” in the law, this approval is granted at the Department’s discretion.

The Department will, if it approves the school, offer provisional certification to a school that allowed its PPA to expire and reapplied to participate in the SFA Programs after its approval to participate ended. (Note: If a school applying for recertification meets the submission deadlines detailed in the introduction to the Application, its PPA remains in effect until the Department either approves or does not approve the application.) If the Department grants a provisional certification, the PPA details the provisions of the certification.

Other times provisional certification may be used are when

- a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA,
- a participating school’s accrediting agency loses its Departmental approval (it may be provisionally certified for no more than 18 months after the agency’s loss of approval),
- it is determined that a school is not financially responsible but the school has met other requirements and has accepted provisional certification, or
- a school that is reapplying for certification has a high default rate.

Provisional certification is always used when

- a school is applying to participate for the first time (if approved, it will be provisionally certified for no more than one complete award year), and
- a participating school is reapplying because it has undergone a change in ownership, structure or governance, for no more than three complete award years (see the discussion of “Change in ownership, structure or governance” on page 219).

### ***Revoking Provisional Certification***

If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school’s participation in the SFA Programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by certified mail (or other expeditious means); the revocation takes effect on the last day of the month that the Department mails the notice.

The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. A Department official will review the request and notify the school by certified mail of his or her decision. If the Department official determines that the revocation is warranted, the school may not apply for reinstatement for 18 months after the revocation or after the expiration of any debarment/suspension action, whichever is later.

## **PRECERTIFICATION TRAINING REQUIREMENT**

In order to participate in any SFA Program, a school must send two representatives (an administrative official and a financial aid representative) to a basic precertification training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership, structure or governance to attend the training.

Note: The Application now allows a school to select the SFA Program(s) it wishes to participate in and opt not to participate in others. If the school later decides that it would like approval to participate in SFA Programs in addition to the ones indicated on its submitted Application, it is required to send representatives to precertification training again. This is because the law requires that training must take place before each first-time approval to participate in an SFA Program is granted. However, if the school’s designated representatives attended the Department’s required precertification training within the last year, rather than attend training again the school may request that the Department conduct an on-site review. An on-site review may be granted at the Department’s discretion.

The precertification workshop provides a general overview of the SFA Programs and their administration. It does not cover fiscal and accounting procedures in detail; the Department offers fiscal officer training separately.

- The attending administrative official must be the school's CEO for a for-profit school; nonprofit schools may send another official designated by the CEO. The administrative official must attend at least the first two days of the workshop.
- The attending financial aid representative must be the person designated by the school to be responsible for administering the SFA Programs. The financial aid representative must attend all four days of the workshop.
- If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper SFA Program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

A school affected by this precertification training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions along with an Application. The school will not be approved to participate in the SFA Programs until the training requirement is met.

The regulations allow schools to meet the precertification requirement by sending the specified individuals to other training programs that are approved by the Department. However, at this time no precertification training programs other than the Department's have been approved.

#### WHEN TO SUBMIT A MATERIALLY COMPLETE APPLICATION

As mentioned previously, there are five circumstances when a school that wishes to participate in SFA Programs must submit a materially complete Application to the Department:

- initial certification,
- change in ownership, structure or governance,
- recertification,
- designation as an "eligible institution," and
- reinstatement

Other types of changes require a school to notify the Department (see page 225).

***Initial Certification***

A school must submit a materially complete Application the first time it wishes to participate in one or more SFA Programs.

Changes in Ownership, Structure or Governance  
*Sec. 498(i)*

***Change in Ownership, Structure or Governance***

A school must submit a materially complete Application following a change in ownership, a conversion to a nonprofit institution, or a merger of two or more schools (referred to collectively as a “change in ownership and structure”). In these cases, the law states that the PPA signed by the former owner automatically expires on the date when the change takes place, and the school’s SFA participation ends. The school retains its default rates and other administrative capability factors; if it is a proprietary institution or postsecondary vocational institution, it does not, however, need to meet the Two-Year Rule.

The Department must be notified of the change within 10 days and, if the school wishes to reestablish its eligibility to participate in one or more SFA Programs, an Application must be submitted and approved. Notification of changes in ownership, structure or governance must be made to

U.S. Department of Education  
Institutional Participation and Oversight Service  
Accreditation and Eligibility Determination Division  
Initial Participation Branch  
400 Maryland Avenue, SW  
Washington, DC 20202-5244  
FAX: (202) 260-3270

As mentioned previously, the Amendments of 1998 allow the Department to grant provisional certification to a school seeking approval of a change in ownership based on the Department’s preliminary review of a materially complete application that is received by the Department within 10 business days of the transaction for which approval is sought. If the Department grants provisional certification under these conditions, the provisional certification expires no later than the end of the month following the month in which the transaction occurred. If the Department has not issued a decision on the application within that period, the Department may extend the school’s provisional certification status on a month-to-month basis until a decision is issued.

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of 1998

***Change in Controlling Interest***

A change in ownership and control occurs when a person or corporation obtains new authority to control a school’s actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this change in controlling interest is when the school is sold to a prospective owner.

Control of a school can change in other ways, too. For instance, a school can convert from a for-profit to a nonprofit institution (or vice versa). This is a change in tax status. A school’s control may change when two or more schools merge or one school divides into several

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### Family Member

*A family member is defined as a parent, sibling, spouse, child, spouse's parent, spouse's sibling, or child's spouse.*

schools. A school's control also changes in situations where a school transfers a significant amount of stock to another person or corporation or when a school transfers its assets or liabilities to another corporation (including related corporations under the same ownership).

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### Ownership Interest

*Ownership interest is a share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.*

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation and managing control of the corporation.

(For a more detailed list of the types of circumstances that signify a change in ownership, structure or governance, see 34 CFR 600.31.)

### ***Owner's Death or Retirement***

However, a school does not automatically have to submit a materially complete Application to the Department when a change in ownership and control is caused by the owner's death or retirement and ownership transfers to a family member or to a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer. In these situations, the school must notify the Department of the change and provide any supporting information requested by the Department.

The law requires that a school must report to the Department the identity of every owner or person directly or indirectly holding 25% or greater interest in the school.

### ***Changes in Ownership Interest and 25% Threshold***

The school must report any change in ownership interests whenever

- an owner acquires a total interest of 25% or greater,
- an owner who held 25% or greater interest reduces his or her interest to less than 25%, or
- an owner of 25% or greater interest increases or reduces his or her interest but remains the holder of at least 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentage(s) of ownership interests must be reported to the Department.

***Reporting***

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional participation approval process, program reviews, and audit process.

An individual or corporation has the ability to substantially affect the school's actions when he or she or it

- personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school,
- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,
- is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or
- is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.

The regulations [34 CFR Part 600.30(e) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entirety, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees (except that voting rights of employee stock plans may be attributed to anyone having authority to vote those shares).

To ensure that its SFA Program participation isn't jeopardized, a school must report an ownership change (including the name[s] of the person[s] involved) to the Department. On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a materially complete Application if it wishes to participate in the SFA Programs.

***Steps to be Taken by Former Owners***

If a school is changing control, the former owner(s) must notify the Department about the change and the date it occurs. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the prospective owner is responsible for doing so.) The current owner also should notify the appropriate state agency that licensed or approved the school.

***Payments to Eligible Students***

Before the change in ownership, structure or governance takes place, the former owner should make sure that all students receive any SFA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the SFA Programs when the change takes place. Generally, a school may

- use Pell Grant or campus-based funds that it has received or request additional Pell Grant or campus-based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the payment period, and
- credit a student's account with the proceeds of a second or subsequent disbursement of a FFEL Stafford or a Direct Loan to satisfy any unpaid commitment made to the student under the FFEL Stafford or Direct Loan Program from the date participation ends until the scheduled completion of that period of enrollment. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school should notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the SFA Program funds beginning on the date that the change becomes effective. If the school's prospective owner(s) wish the school to participate in one or more of the SFA Programs, the school must submit a materially complete Application to the Department.

***Steps to be Taken by Prospective Owners***

The prospective owner should request that the former owner provide copies of the school's existing ECAR, refund policy, any required default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), compliance audits, and an audited balance sheet showing the financial

condition of the institution at the time of the change. The prospective owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan, if required. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. (For information on financial responsibility and submitting audited financial statements, see Chapter 2.)

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award SFA Program funds until it receives a PPA signed on behalf of the Secretary.

### ***Accepting Liabilities and Refund Policy***

If the prospective owner(s) acquired the school or if the school is the result of a merger of two or more former schools, the prospective owner is liable for any debts from the former owner's SFA Program administration. The prospective owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership, structure or governance became effective. The prospective owner must also abide by the refund policy for students enrolled before the date the change became effective and must honor all student enrollment contracts signed before the date of the change.

### ***Effect of Cohort Default Requirements***

As mentioned earlier, the school retains its current and past cohort default rates and must implement any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change in ownership may affect the school's SFA participation. A school with a change in ownership, structure or governance may be denied approval to participate in the SFA Programs on the basis of current default rates.

Prior to the Amendments of 1998, a prospective owner was required to submit a new default management plan with the Application regardless of the level of the school's cohort default rate.

However, the Amendments of 1998 exempt a school from submitting a default management plan if (a) neither the subordinate institution nor parent institution has a cohort default rate of 10 percent or less and (b) the prospective owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent. This provision is effective October 1, 1998.

**Default Management Plan Required**  
*Sec. 487(a)*

Amendments  
of 1998

Expiration of Certification  
*Sec. 498(g)*

***Audits and Closeout Procedures***

Although a separate financial aid compliance audit is not required when there is a change in ownership, structure or governance, the prospective owner may choose to have the accounts audited before they are closed out. Any questions about SFA accounts or close-out procedures can be answered by the Department's Financial Management Specialists for the Pell Grant, campus-based, Direct Loan, or FFEL program. The prospective owner also should check with the Department's appropriate case management team for information on whether the school owes any Department liabilities resulting from program reviews or audits. See Chapter 11 for phone numbers.

Before the date of purchase, the prospective owner should make sure that all students have received their SFA Program award payments for payment periods and periods of enrollment that began before the date of purchase, that all SFA Program accounts have been closed out, and that all related reports have been filed properly.

Once the Department determines that a school that has undergone a change in ownership, structure or governance is eligible to participate in the SFA Programs, a new ECAR and signed PPA will be sent and appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing the SFA Program funds in the payment period or loan period (as applicable) in which the new PPA is signed on behalf of the Secretary.

***Recertification***

A school that wishes to continue participating in the SFA Programs must submit a materially complete Application requesting recertification 90 days prior to the expiration date on its current PPA or the Department otherwise notifies it that recertification is necessary. See page 213 for more information on time frames for submitting a recertification application.

Amendments  
of 1998

As mentioned previously, the 1992 reauthorization of the HEA required that every four years a school must be reapproved (recertified) to participate in the SFA Programs. The Amendments of 1998 extend the certification period to up to 6 years. In addition, the Amendments of 1998 require the Department to notify schools six months in advance of the expiration of their certification.

In addition, the Amendments direct the Department to publish special recertification regulations for foreign schools that receive less than \$500,000 in FFEL loan funds.

***Designation as an Eligible Institution***

A school must submit a materially complete Application requesting this certification category when it wishes to be designated as an eligible institution under the HEA but does not wish to participate to the point of awarding federal financial aid funds.

A school may request this type of limited designation so the school's students may receive deferments under federal student loan programs, be eligible for the HOPE Scholarship tax credit, or so the school may apply to participate in HEA programs other than the SFA Programs.

To meet the requirements for its students to defer student loan payments and to take part in other HEA programs, the school is required to be approved as an eligible institution—it is not actually required to award SFA funds. (See Chapter 1 for information on what constitutes an eligible institution.)

***Reinstatement***

A school must submit a materially complete Application requesting reinstatement when it wishes to participate again in one or more SFA Programs after voluntarily or involuntarily leaving the SFA Programs.

A school that voluntarily left one or more SFA Programs (and did not leave because of action about to be taken by the Department) may apply for reinstatement at any time.

A school that the Department terminated from participating in one or more SFA Programs (or that left one or more SFA Programs because it was about to be terminated or sanctioned) has a waiting period before it may apply to be reinstated.

**SUBSTANTIVE CHANGES AND HOW TO REPORT THEM**

A school is required to report changes to certain information on its approved Application. Some of these changes require the Department's written approval before the school may disburse the SFA Program funds, others do not (see the charts that follow).

***Changes That Require the Department's Written Approval***

(The number in parentheses refers to the number of the question on the Application.)

All Schools

- Change in accrediting agency\* (#15)
- Change in state authorizing agency (#17)
- Change in institutional structure (#18)
- Change in educational programs outside of the scope of current approval (#26)
- Addition of nondegree programs outside of the scope of current approval (#27)
- Change from or to clock hours or credit hours (#27)
- Addition of a location (#30)
- Change to the SFA Programs for which the school is approved\*\* (#37)

For-profit Schools Only

- Change in the type of ownership (#22)
- Change in ownership (#24)

\*Notify the Department when you BEGIN making ANY change that deals with your school's institution-wide accreditation.

\*\*Approvals from your accrediting agency and state authorizing agency are NOT required for this change.

When one of the changes that requires the Department's written approval occurs, a school must notify the Department by

1) reporting the change and the date of the change to the Department via the electronic application within 10 calendar days of the change, and

2) As soon as the school has received approvals for the change from its accrediting agency and state authorizing agency it must send to the Department

- copies of the approval for the change,
- any required documentation, and
- Section L of the Application containing the original signature of the appropriate person.

***Changes Not Requiring the Department's Written Approval***

## All Schools

- Change to name of school\* (#2)
- Change to the name of a CEO, President, Chancellor (#10)
- Change to the name of the chief fiscal officer, financial officer (#11)
- Address change for a principal location\* (#29)
- Address change for other locations\* (#30)
- Change to the school's third-party servicers that deal with the SFA Program funds (#58)

## Private nonprofit and for-profit schools only

- Change to the Board of Directors (but not trustees) (#20)

## Foreign schools only (including foreign graduate medical schools)

- Change to postsecondary authorization (#42)
- Change to degree authorization (#43)
- Change to program equivalence (#44)
- Change to program criteria (#45)
- Change to U.S. administrative and/or recruitment offices (#46)

## Foreign graduate medical schools only

- Change to facility at which school provides graduate medical instruction (#47)
- Change to authorizing entity (#48)
- Change to approval of authorizing entity (#49)
- Change to length of program (#50)
- Change to programs located in the United States (#51)

\*As soon as it has received approvals for the change from its accrediting agency and state authorization agency, a school must send the Department copies of the approvals for change.

When one of these changes occurs, a school must notify the Department by reporting the change and the date of the change to the Department via the electronic application within 10 calendar days of the change. In addition, the letter must include

- any required documentation, and
- Section L of the Application containing the original signature of the appropriate person.

Note that, for a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department (noted on chart), a school must obtain approval from the appropriate accrediting agency and state authorizing agency.

Notifications of changes in ownership, structure or governance must be made to the Institutional Participation and Oversight Service at the address on page 219.

All other notifications must be sent by U.S. Postal Service to

U.S. Department of Education  
Institutional Participation and Oversight Service  
P.O. Box 44805  
L'Enfant Plaza Station  
Washington, DC 20026-4805

or by commercial courier/overnight mail to

U.S. Department of Education  
Institutional Participation and Oversight Service  
Room 3514  
7th and D Streets, SW-GSA Building  
Washington, DC 20407

### ***Notification of School Closure or Bankruptcy***

If a change occurs in an Application item not listed in one of the two charts, the school must update the information when it applies for recertification. However, if a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the Application need to be submitted. If a school has questions about changes and procedures, it should contact the Institutional Participation and Oversight Service.

After receiving the required materials (and depending on the circumstances), the Department will evaluate the change(s) and either approve or deny the change and notify the school.

### ADDING LOCATIONS OR PROGRAMS

The ECAR that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department.

Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must be able to show the Department that the location is properly accredited and licensed by the state.)

For a location to be added, it must meet all institutional eligibility requirements as described in Chapter 1, except the Two-Year Rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from each state in which the school is physically located.

The Department will review the information, and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR and Approval Letter will be issued. The location is eligible as of the date of the Department's determination. The Department may require a recertification application and a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA. The Department will send the school a revised ECAR.

Note that if a proprietary institution or a postsecondary vocational institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to any acquisition of the closed school's assets, even an indirect acquisition.) The acquiring school will also receive a recalculated default rate because the acquiring school assumes the default rate of the closed school (or any additional locations of the closed school).

### ***When School May Make Program Eligibility Determination***

If a school adds an educational program after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility:

- the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or
- the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Secretary already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

Note, however, that if the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all SFA Program funds received for the program and all SFA Program funds received by or for students enrolled in that program.

### ***Department Must Approve All Other Added Programs***

In all other cases, the eligibility of an added educational program must be determined by the Department before the SFA Program funds can be awarded. The school must submit the required Application sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If it approves the additional program, a revised ECAR and Approval Letter is issued for the school, and the school is eligible as of the date of the Department's determination. The school may begin to disburse the SFA Program funds to students enrolled in that program. (For more on program eligibility, see Chapter 1.)

### ***Waivers***

The law mandates percentages of telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Application (which deal with enrollment thresholds in these areas), the school must notify the Department. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (For more information, see Chapter 1.)

### *Changes in Accreditation*

If a school decides to change its primary accrediting agency, it must notify the Institutional Participation and Oversight Service when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its prior accreditation, and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one institutional accrediting agency, it must submit to the Institutional Participation and Oversight Service (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If the Department ceases to recognize a school's accreditation, the school is no longer eligible to award SFA Program funds or take part in other programs under the Higher Education Act of 1965, as amended.

If a school becomes accredited by more than one agency, it must notify the Institutional Participation and Oversight Service of which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the SFA Programs.

### **SINGLE IDENTIFIER INITIATIVE**

The Department is taking steps to designate a single identification number for schools that participate in the SFA Programs. This single identification number will replace the multiple identification numbers that schools currently use for a variety of SFA Program functions. In 1997, the Department asked schools to verify all active and inactive program identifiers. In December 1998, the Department permanently warehoused these program identifier "crosswalks" in the Postsecondary Education Participant System (PEPS).



Originally, the Department planned to use an eight-digit OPEID as the single identifier. The Department was to implement the OPEID by the 1999-2000 award year. However, while the Single Identifier Initiative was in progress, President Clinton mandated implementation of recommendations to initiate electronic commerce on a government-wide basis. As a part of President Clinton's mandate, federal agencies and departments have adopted the Dun and Bradstreet Information Corporation's numbering system, the Data Universal Numbering (D-U-N-S), as a principal contractor, vendor and grantee identification code. A "Dear Colleague" letter published in March 1998 (GEN-98-8) provided schools with a detailed update of these changes.

Quality Assurance Program  
*Sec. 487(a)*

The Department will implement the D-U-N-S identification system as the Single Identifier for all SFA participants: schools, lenders, servicers, and guarantors. The Department is examining the feasibility of implementing the D-U-N-S identification system as part of the software development for the 2001-2002 need analysis cycle beginning January 1, 2001 for the award year beginning July 1, 2001.

For additional information, a school may access the web site, <http://www.sii.ed.gov> or call 202-708-4608.

### QUALITY ASSURANCE PROGRAM

Under the Quality Assurance (QA) Program, schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of SFA Programs and services. The emphasis of this program is on prevention or up-front correction and partnerships. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QA Program schools are exempt from certain verification requirements because they develop a school-specific program based on data gathered in the cycle of QA Program activities. Annual reporting requirements and periodic Quality Assurance site visits help ensure accountability and program integrity, and provide technical assistance. Schools that are interested in QA Program participation should contact the Performance and Accountability Improvement Branch at the following address or phone number:

U.S. Department of Education/OPE/SFAP/IPOS  
Performance and Accountability Improvement Branch  
400 Maryland Ave., SW  
ROB-3, Room 3925  
Washington, DC 20202-5232  
(202) 260-4788

If a school is interested in conducting a self assessment of its policies, procedures, and overall compliance with SFA requirements, it can use the "Comprehensive Management Assessments" instrument used in the QA Program. This assessment is universally applicable, helping any school determine its strengths and weaknesses in the following areas: institutional participation, fiscal management, recipient eligibility, award calculation and disbursement, and reporting and reconciliation.

Even if a school is not interested in participating in the QA Program, it would benefit from this self-assessment exercise. This assessment was made available to all schools during the 1997-98 award year.

The Amendments of 1998 made the following changes to the specific provisions governing the Quality Assurance Program:

- The current provisions relating to data verification are expanded to include the development and implementation of systems for processing and disbursing student aid and entrance and exit interviews.
- The criteria for the selection of participants are expanded to include a requirement to ensure the selection of a diverse group of schools with respect to size, mission, and geographical distribution.
- The Department is authorized to waive regulations dealing with reporting or verification requirements in the SFA Programs that are addressed in the institution's alternative management plan and prohibits the Department from waiving any statutory provisions.
- The Department is required to review and evaluate the QA Program conducted at each participating institution and to make recommendations to Congress regarding amendments to the law to streamline the administration and enhance the integrity of the student aid programs.

These provisions are NOT subject to the negotiated rulemaking process. All are effective October 1, 1998.

Experimental Sites Initiative  
Sec. 487(a)

Amendments  
of 1998

## EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the SFA Programs than the way required by statute or regulation, it may apply to be an "experimental site." Using the authority under section 487A(d) of the Higher Education Act, the Department has approved exemptions to a variety of SFA statutory and regulatory requirements. So far, over 160 schools have been designated as experimental sites.

Thirteen areas of experimentation have been approved since the 1995-96 award year. They are

- entrance loan counseling,
- exit loan counseling,
- multiple disbursement for single term loans,
- thirty-day delay in loan disbursements for first-time, first-year borrowers,
- loan fees in cost of attendance,
- loan proration for graduating borrowers,

- crediting SFA funds to prior year charges,
- crediting SFA funds to institutional charges,
- overaward tolerance,
- academic term,
- federal work-study time records
- federal work-study payment, and
- ability to benefit.

The effective dates for the first nine experiments are July 1, 1995 to June 30, 2000. The effective dates for the last four experiments are July 1, 1997 to June 30, 2002.

This partnership between ED and institutions encourages schools to develop and test alternative approaches to the current prescriptive requirements. By allowing flexibility in how entrance loan counseling is handled, for example, schools might develop methods that are less administratively burdensome, but more effective in providing loan information. The Department will use results from these experiences to continue reforming administration of the SFA Programs.

Amendments  
of 1998

The Amendments of 1998 made several changes to the provisions that govern the Experimental Sites Initiative:

- The Department is authorized to continue any experimental sites in existence on the date of enactment. Any previously approved activities that are not consistent with the Amendments must be discontinued no later than June 30, 1999.
- The Department must review and report to Congress on the experience of institutions that participated in the experimental sites program from 1993-1998. The report must include a list of participants and their experiments, the findings and conclusions resulting from those experiments, and recommendations for amendments to the law. Upon the submission of this report, the Department may select a limited number of institutions for participation as experimental sites to provide recommendations to the Department on the impact and effectiveness of proposed regulations or new management initiatives.
- Prior to approving additional experimental sites, the Department must consult with Congress and provide a list of institutions and the specific regulatory and statutory waivers, a statement of the objectives to be achieved, and the time period for the experiment.
- The Department may waive statutory requirements for participating schools based on the experiment except that the

Secretary may not waive provisions related to award rules, grant and loan maximums, and need analysis requirements.

These provisions are NOT subject to the negotiated rulemaking process. All are effective October 1, 1998.

For further information on the experimental sites initiative, please call the Performance and Accountability Improvement Branch at 202-260-4788.

